COMMONWEALTH OF KENTUCKY

SUMMARY PLAN DESCRIPTION

COMMONWEALTH OF KENTUCKY DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT

The *Plan* Sponsor has established and continues to maintain this Commonwealth of Kentucky Dependent Care Flexible Spending Account (the "*Plan*") for the benefit of its *associates* and their eligible *dependents* as provided in this document.

Benefits under this *Plan* are provided on a self-insured basis, which means that payment for benefits is ultimately the sole financial responsibility of the *Plan* Sponsor. Certain administrative services with respect to the *Plan*, such as claims processing, are provided under a services agreement.

Any changes in the *Plan*, as presented in this *Summary Plan Description*, must be properly adopted by the *Plan* Sponsor, and material modifications must be timely disclosed in writing and included in or attached to this document. A verbal modification of the *Plan*, or promise having the same effect, made by any person will not be binding with respect to the *Plan*.

Louisville Plan Number: 236118

Lexington Plan Number: 236135

North Kentucky Plan Number: 236216

Effective Date: January 1, 2006

Plan Year: January 1, 2006 through December 31, 2006

Employer's Federal Tax Identification Number: 61-0600439

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PLAN INFORMATION

GENERAL INFORMATION ABOUT THE PLAN

Commonwealth of Kentucky (the "*Employer*") has established the Commonwealth of Kentucky Dependent Care Flexible Spending Account (the "Plan"). The Plan allows you to use *Pre-tax Contributions* to pay for qualified expenses. This Plan helps you because the benefits you elect are nontaxable. The Commonwealth of Kentucky Dependent Care Flexible Spending Account contains two components:

(i) A Cafeteria Plan Component. The Cafeteria Plan Component allows you to pay your share of certain underlying welfare benefit plans (called "Benefit Plan Options) with *Pre-tax Contributions*.

(ii) The Dependent Care Spending Account ("Dependent Care FSA"). The Dependent Care FSA allows you to elect to use a specified amount of *Pre-tax Contributions* to be used for reimbursement of Employment Related Expenses. The Dependent Care FSA is intended to qualify as a *Code* Section 129 dependent care assistance plan.

Each of these components is summarized in this document. Each summary and the attached Appendices constitute the *Summary Plan Description* for the Commonwealth of Kentucky Dependent Care Flexible Spending Account. The *SPD* (collectively, the *Summary Plan Description* or "*SPD*") describes the basic features of the Plan(s), how they operate, and how you can get the maximum advantage from them. Certain words in this Summary are italicized. Italicized words reflect important terms that are specifically defined in Appendix III of this Summary. You should pay special attention to these terms as they play an important role in defining your rights and responsibilities under the Plan(s).

Participation in the Plan(s) does not give any *Participant* the right to be retained in the employ of his or her *Employer* or any other right not specified in the Plan. If you have any questions regarding your rights and responsibilities under the Plan(s), you may also contact the *Plan Administrator*.

PLAN CONTACT INFORMATION

If you have any questions about the Commonwealth of Kentucky Dependent Care Flexible Spending Account, you should contact the Third Party Administrator or the *Plan Administrator*.

Employer / Plan Sponsor

Commonwealth of Kentucky
Personnel Cabinet, Department for Employee Insurance
200 Fair Oaks Lane, Suite 501
Frankfort, KY 40601
502-564-0350
502-564-0351

Plan Administrator

Commonwealth of Kentucky
Personnel Cabinet, Department for Employee Insurance
200 Fair Oaks Lane, Suite 501
Frankfort, KY 40601
502-564-0350
502-564-0351

Third Party Administrator

Humana
Attn: Humana Spending Account Administration Team
500 West Main Street
Louisville, KY 40201
Toll Free: 1-800-604-6228

CAFETERIA PLAN COMPONENT SUMMARY

PARTICIPATION

You are eligible to participate in this Plan if you satisfy the below Eligibility Requirements. Those *employees* who actually participate in the Cafeteria Plan are called "*Participant*s."

"Employee" shall mean a person, including an elected public official, who is regularly employed by any department, board, agency, or branch of state government, and who is a contributing member to any one (1) of the retirement systems administered by the state.

Eligibility for coverage under any given Benefit Plan Option shall be determined not by this Plan but by the terms of that Benefit Plan Option. The terms of eligibility of this Cafeteria Plan do not override the terms of eligibility of each of the Benefit Plan Options. In other words, if you are eligible to participate in this Cafeteria Plan, it does not necessarily mean you are eligible to participate in the Benefit Plan Options.

You may be *required* to pay for any Benefit Plan Option coverage that you elect with *Pre-tax Contributions*. Alternatively, the *Employer* may allow you to pay your share of the contributions with *after-tax contributions*. The enrollment material you receive will indicate whether you have to pay with *Pre-Tax Contributions* or whether you have an option to choose to pay with *after-tax contributions*.

When you elect to participate both in a Benefit Plan Option and this Cafeteria Plan, an amount equal to your share of the annual cost of those Benefit Plan Options that you choose divided by the applicable number of pay periods you have during that Plan Year is deducted from each paycheck after your election date. If you have chosen to use *Pre-tax Contributions* (or it is a plan requirement), the deduction is made before any applicable federal and/or state taxes are withheld.

ENROLLMENT

The purpose of the Cafeteria Plan is to allow eligible *employees* to pay for certain benefit plans (Benefit Plan Options) with pre-tax dollars ("*Pre-tax Contributions*"). Each *employee* of the *Employer* (or an *Affiliated Employer*) who

(i) satisfies the Cafeteria Plan Eligibility Requirements and
(ii) is also eligible to participate in any of the Benefit Plan Options will be eligible to participate in this Cafeteria Plan.

If you have satisfied the Cafeteria Plan's eligibility requirements, you automatically become a *Participant*. You may also enroll during the year if you previously elected not to participate and you experience a change described below that allows you to become a *participant* during the year. If that occurs, you must complete an election change form during the Election Change Period.

The Cafeteria Plan has three election periods:

(i) the “Initial Election Period,”
(ii) the “Annual Election Period,” and
(iii) the “Election Change Period, which is the period following the date you have a *Qualifying Event*. The following is a summary of the Initial Election Period and the Annual Election Period.

The Initial Election Period

Upon satisfying the Health FSA Eligibility Requirements, you are automatically enrolled in the Commonwealth of Kentucky Health Flexible Spending Account. The election that you make during the Initial Election Period is effective for the remainder of the *Plan Year* and generally cannot be changed during the *Plan Year* unless you have a *Qualifying Event*. If you choose not to participate in the Commonwealth of Kentucky Health Flexible Spending Account, please contact your *Plan Administrator* for the applicable forms needed to discontinue your enrollment.

The Annual Election Period

The Cafeteria Plan also has an "Annual Election Period" during which you may enroll if you did not enroll during the Initial Election Period or change your elections for the next *Plan Year*. The Annual Election Period will be identified in the enrollment material distributed to you prior to the Annual Election Period. The election that you make during the Annual Election Period is effective the first day of the next *Plan Year* and cannot be changed during the entire *Plan Year* unless you have a *Qualifying Event* described below.

ELECTION CHANGES

If you experience a *Qualifying Event* as described in the Cafeteria Plan Summary and in the Election Change Chart, you may make the permitted election changes described in the Election Change Chart if you complete and submit an election change form within 90 days after the date of the event. If you are participating in an insured arrangement that provides a longer election change period, the election change period described in the insurance policy will apply.

Generally, you cannot change your election under this Cafeteria Plan during the *Plan Year*. There are, however, a few exceptions. First, your election will automatically terminate if you terminate employment or lose eligibility under this Cafeteria Plan or under all of the Benefit Plan Options that you have chosen.
Second, you may voluntarily change your election during the *Plan Year* if you satisfy the following conditions (prescribed by federal law):

(a) You experience a "*Qualifying Event*" that affects your eligibility under this Cafeteria Plan and/or a Benefit Plan Option; or
(b) You complete and submit a written Election Change Form within the Election Change period.

Qualifying Event recognized by this Cafeteria Plan, and the rules surrounding election changes in the event you experience a *Qualifying Event* are described in the Election Change Chart attached to this *SPD*. Note: If you elect to contribute to a Health Savings Account (to the extent offered under the Plan), there are special rules regarding mid-year election changes.

Third, an election under this Cafeteria Plan may be modified during the *Plan Year* if you are a *Key Employee* or *Highly Compensated Individual* (as defined by the Internal Revenue *Code*), if necessary to prevent the Cafeteria Plan from becoming discriminatory within the meaning of the applicable federal income tax law**.**

If coverage under a Benefit Plan Option ends, the corresponding *Pre-tax Contributions* for that coverage will automatically end. No election is needed to stop the contributions.

LEAVE OF ABSENCE

The following is a general summary of the rules regarding participation in the Cafeteria Plan (and the Benefit Plan Options) during a leave of absence. The specific election changes that you can make under this Cafeteria Plan following a leave of absence are described in the Election Change Chart.

(a) If you go on a qualifying unpaid leave under the Family and Medical Leave Act of 1993 (FMLA), the *Employer* will continue to maintain your Benefit Plan Options that provide health coverage on the same terms and conditions as though you were still active to the extent required by FMLA (e.g., the *Employer* will continue to pay its share of the contribution to the extent you opt to continue coverage).

(b) Your *Employer* may elect to continue all health coverage for *Participant*s while they are on paid leave (provided *Participant*s on non-FMLA paid leave are required to continue coverage). If so, you will pay your share of the contributions by the method normally used during any paid leave (for example, with *Pre-tax Contributions* if that is what was used before the FMLA leave began).

(c) In the event of unpaid FMLA leave (or paid leave where coverage is not required to be continued), if you opt to continue your group health coverage, you may pay your share of the contribution in one of the following ways:

(i) With after-tax dollars while you are on leave,

(ii) You may pre-pay all or a portion of your share of the contribution for the expected duration of the leave with *Pre-tax Contributions* from your pre-leave *compensation* by making a special election to that effect before the date such *compensation* would normally be made available to you. However, pre-payments of *Pre-tax Contributions* may not be utilized to fund coverage during the next *Plan Year*.

(iii) By other arrangements agreed upon between you and the *Plan Administrator* (for example, the *Plan Administrator* may fund coverage during the leave and withhold amounts from your *compensation* upon your return from leave).

The payment options provided by the *Employer* will be established in accordance with *Code* Section 125, FMLA and the *Employer*'s internal policies and procedures regarding leaves of absence and will be applied uniformly to all *Participant*s. Alternatively, the *Employer* may require all *Participant*s to continue coverage during the leave. If so, you may elect to discontinue your share of the required contributions until you return from leave. Upon return from leave, you will be required to repay the contribution not paid during the leave in a manner agreed upon with the Administrator. The Election Change Chart will let you know whether you are able to drop your coverage or whether you are required to continue coverage during the leave.

(d) If your coverage ceases while on FMLA leave (e.g., for non-payment of required contributions), you will be permitted to re-enter the Cafeteria Plan and the Benefit Plan Option upon return from such leave on the same basis as you were participating in the plans prior to the leave, or as otherwise required by the FMLA. Your coverage under the Benefit Plan Options providing health coverage may be automatically reinstated provided that coverage for *Employees* on non-FMLA leave is automatically reinstated upon return from leave.

(e) The *Employer* may, on a uniform and consistent basis, continue your group health coverage for the duration of the leave following your failure to pay the required contribution. Upon return from leave, you will be required to repay the contribution in a manner agreed upon by you and the *Employer*.

(f) If you are commencing or returning from unpaid FMLA leave, your election under this Cafeteria Plan for Benefit Plan Options providing non-health benefits shall be treated in the same manner that elections for non-health Benefit Plan Options are treated with respect to *Participant*s commencing and returning from unpaid non-FMLA leave.

(g) If you go on an unpaid non-FMLA leave of absence (e.g., personal leave, sick leave, etc.) that does not affect eligibility in this Cafeteria Plan or a Benefit Plan Option offered under this Cafeteria Plan, then you will continue to participate and the contribution due will be paid by pre-payment before going on leave, by *after-tax contributions* while on leave, or with catch-up contributions after the leave ends, as may be determined by the Administrator. If you go on an unpaid leave that affects eligibility under this Cafeteria Plan or a Benefit Plan Option, the election change rules described herein will apply. The *Plan Administrator* will have discretion to determine whether taking an unpaid non-FMLA leave of absence affects eligibility.

TERMINATION OF COVERAGE

Although the *Employer* expects to maintain the Cafeteria Plan indefinitely, it has the right to modify or terminate the Cafeteria Plan at any time and for any reason.

Your coverage under the Cafeteria Plan ends on the earliest of the following to occur:

(i) The date that you make an election not to participate in accordance with this Cafeteria Plan Summary;
(ii) The date that you no longer satisfy the Eligibility Requirements of this Cafeteria Plan or all of the Benefit Plan Options;
(iii) The date that you terminate employment with the *Employer*; or
(iv) The date that the Cafeteria Plan is either terminated or amended to exclude you or the class of *employees* of which you are a member.

If your employment with the *Employer* is terminated during the *Plan Year* or you otherwise cease to be eligible, your active participation in the Cafeteria Plan will *automatically* cease, and you will not be able to make any more *Pre-tax Contributions* under the Cafeteria Plan except as otherwise provided pursuant to *Employer* policy or individual arrangement (e.g., a severance arrangement where the former employee is permitted to continue paying for a Benefit Plan Option out of severance pay on a pre-tax basis). If you are rehired within the same *Plan Year* and are eligible for the Cafeteria Plan (or you become eligible again), you may make new elections if you are rehired or become eligible again more than 30 days after you terminated employment or lost eligibility (subject to any limitations imposed by the Benefit Plan Option(s)). If you are rehired or again become eligible within 30 days or less of your termination date, your Cafeteria Plan elections that were in effect when you terminated employment or stopped being eligible will be reinstated and remain in effect for the remainder of the *Plan Year* (unless you are allowed to change your election in accordance with the terms of the Plan).

TAX ADVANTAGES

You save both federal income tax and FICA (Social Security) taxes by participating in the Cafeteria Plan. Cafeteria Plan participation will reduce the amount of your taxable *compensation*. Accordingly, there could be a decrease in your Social Security benefits and/or other benefits (e.g., pension, disability, and life insurance) that are based on taxable *compensation*.

DEPENDENT CARE ELIGIBILITY REQUIREMENTS

PARTICIPATION

Each *employee* who satisfies the Dependent Care FSA Eligibility Requirements is eligible to participate in the Dependent Care FSA on the Dependent Care FSA Eligibility Date.

"Employee" shall mean a person, including an elected public official, who is regularly employed by any department, board, agency, or branch of state government, and who is a contributing member to any one (1) of the retirement systems administered by the state.

If you have otherwise satisfied the Dependent Care FSA's Eligibility Requirements, you become a *participant* in the Dependent Care FSA by electing Dependent Care Reimbursement benefits during the Initial or Annual Election Periods. Your participation in the Dependent Care FSA will be effective on the date that you make the election or you're Dependent Care FSA Eligibility Date, whichever is later. If you have made an election to participate and you want to participate during the next *Plan Year*, you must make an election during the Annual Election Period, even if you do not change your current election. Evergreen elections do not apply to Dependent Care FSA elections.

You may also become a *participant* if you experience a *Qualifying Event* that permits you to enroll mid year.

ENROLLMENT

If you elect to participate in the Dependent Care FSA, the *Employer* will establish a "Dependent Care Account" to keep a record of the reimbursements you are entitled to, as well as the contributions you elected to withhold for such benefits during the *Plan Year*. No actual account is established; it is merely a bookkeeping account. Benefits under the Dependent Care FSA are paid as needed from the *Employer*'s general assets.

During the enrollment period, you will specify the amount of Dependent Care Reimbursement you wish to pay for with *Pre-tax Contributions*. Thereafter, each paycheck will be reduced by an amount equal to a pro-rata share of the annual contribution.

DEPENDENT CARE ELIGIBILITY REQUIREMENTS (continued)

The annual amount cannot exceed the maximum Dependent Care Reimbursement amount specified in Section 129 of the Internal Revenue *Code*. The minimum annual amount for the Commonwealth of Kentucky Dependent Care Flexible Spending Account is $120 per *Plan Year*. The maximum annual amount if you are –

• married and file a joint return	$5,000 per *Plan Year*
• married but your *Spouse* maintains a separate residence for the last 6 months of the calendar year, you file a separate tax return, and you furnish more than one-half the cost of maintaining those Dependents for whom you are eligible to receive tax-free reimbursements under the Dependent Care FSA	$2,500 per *Plan Year*
• single	$5,000 per *Plan Year*

If you are married and reside together, but file a separate federal income tax return, the maximum Dependent Care Reimbursement that you may elect is $2,500. In addition, the amount of reimbursement that you receive on a tax free basis during the *Plan Year* cannot exceed the lesser of your earned income (as defined in *Code* Section 32) or your *spouse*'s earned income.

Your *Spouse* will be deemed to have earned income of $250 if you have one Qualifying Individual and $500 if you have two or more Qualifying Individuals (described below), for each month in which your *Spouse* is

(i) physically or mentally incapable of caring for himself or herself, or

(ii) a full-time *student* (as defined by *Code* Section 21).

TAX ADVANTAGES

You will not normally be taxed on your Dependent Care Reimbursement so long as your family's aggregate Dependent Care Reimbursement (under this Dependent Care FSA) does not exceed the maximum annual reimbursement limits described above. However, to qualify for tax-free treatment, you will be required to list the names and taxpayer identification numbers on your annual tax return of any persons who provided you with dependent care services during the calendar year for which you have claimed a tax-free reimbursement.

DEPENDENT CARE ELIGIBILITY REQUIREMENTS (continued)

You may not claim any other tax benefit for the tax-free amounts received by you under this Dependent Care FSA, although the balance of your Eligible Employment Related Expenses may be eligible for the dependent care credit.

The household and dependent care credit is an allowance for a percentage of your annual, Eligible Employment Related Expenses as a credit against your federal income tax liability under the U.S. Tax *Code*. In determining what the tax credit would be, you may take into account only $3,000 of such expenses for one Qualifying Individual, or $6,000 for two or more Qualifying Individuals. Depending on your adjusted gross income, the percentage could be as much as 35% of your Eligible Employment Related Expenses (to a maximum credit amount of $1,050 for one Qualifying Individual or $2,100 for two or more Qualifying Individuals,) to a minimum of 20% of such expenses. The maximum 35% rate must be reduced by 1% (but not below 20%) for each $2,000 portion (or any fraction of $2,000) of your adjusted gross income over $15,000.

Illustration: Assume you have one Qualifying Individual for whom you have incurred Eligible Employment Related Expenses of $3,600, and that your adjusted gross income is $21,000. Since only one Qualifying Individual is involved, the credit will be calculated by applying the appropriate percentage to the first $3,000 of the expenses. The percentage is, in turn, arrived at by subtracting one percentage point from 35% for each $2,000 of your adjusted gross income over $15,000. The calculation is: 35% -- [($21,000 - 15,000)/$2,000 X 1%] = 32%. Thus, your tax credit would be $3,000 X 32% = $960. If you had incurred the same expenses for two or more Qualifying Individuals, your credit would have been $3,600 X 32% = $1,152, because the entire expense would have been taken into account, not just the first $3,000.

ELECTION CHANGES

You can change your election under the Dependent Care FSA in the following situations:

(i) For any reason during the Annual Election Period. You can change your election during the Annual Election Period for any reason. The election change will be effective the first day of the *Plan Year* following the end of the Annual Election Period.

(ii) Following a *Qualifying Event*. You may change your Dependent Care FSA election during the *Plan Year* only if you experience a *Qualifying Event.*

LEAVE OF ABSENCE

Refer to the Cafeteria Plan Summary and the Election Change Chart to determine what, if any, specific changes you can make during a leave of absence.

TERMINATION OF COVERAGE

Although the *Employer* expects to maintain the Plan indefinitely, it has the right to modify or terminate the program at any time for any reason.

Your coverage under the Dependent Care FSA ends on the earlier of the following to occur:

(i) the date that you elect not to participate in accordance with the Cafeteria Plan Summary;
(ii) the last day of the *Plan Year* unless you make an election during the Annual Election Period;
(iii) the date that you no longer satisfy the Dependent Care FSA Eligibility Requirements;
(iv) the date that you terminate employment; or
(v) the date that the Plan is terminated or you or the class of eligible *employees* of which you are a member are specifically excluded from the Plan.

If you terminate employment or you cease to be eligible during the *Plan Year*, you may submit for reimbursement Eligible Employment Related Expenses incurred after the date of separation up to the amount of your Dependent Care Account.

DEPENDENT CARE REIMBURSEMENT

ELIGIBLE CLAIMS EXPENSE

Eligible Employment Related Expenses must be incurred ***during*** the *Plan Year*. You may not be reimbursed for any expenses arising before the Dependent Care FSA becomes effective or for any expenses incurred after the close of the *Plan Year*.

You may be reimbursed for work-related dependent care expenses ("Eligible Employment Related Expenses"). Generally, an expense must meet all of the following conditions for it to be an Eligible Employment Related Expense:

1. The expense is incurred for services rendered after the date of your election to receive Dependent Care Reimbursement benefits and during the calendar year to which it applies.

2. Each individual for whom you incur the expense is a "Qualifying Individual." A Qualifying Individual is:

(i) An individual age 12 or under who
(a) has the same principal place of abode as you,
(b) does not provide over half of his/her own support and
(c) is your "child" (son, daughter, grandchildren, step children, brother, sister, niece and nephew).

Note: There is a special rule for children of divorced parents. If you are divorced, the child is a qualifying individual with respect to you if the child lives with you even if you have permitted the non-custodial parent to take the exemption; or

(ii) a *Spouse* or other tax Dependent (as defined in *Code* Section 152) who is physically or mentally incapable of caring for himself or herself and who has the same principal place of abode as you for more than half of the year. NOTE: Effective January 1, 2005, there is an income limitation, in addition to a support requirement (and a residence requirement for certain non-relatives) for all individuals (other than a *spouse*) age 19 and older (or between age 19 and 23 if a full-time *student*) under *Code* Section 152. Generally, such an individual cannot qualify as a *Code* Section 152 dependent if he/she has gross income in excess of the exemption amount under *Code* Section 151

3. The expense is incurred for the care of a Qualifying Individual (as described above), or for related household services, and is incurred to enable you (and your *Spouse*, if applicable) to be gainfully employed. Expenses for overnight stays or overnight camp are not eligible. Tuition expenses for kindergarten (or above) do not qualify.

4. If the expense is incurred for services outside your household and such expenses are incurred for the care of a Qualifying Individual who is age 13 or older, such Dependent regularly spends at least 8 hours per day in your home.

5. If the expense is incurred for services provided by a dependent care center (i.e., a facility that provides care for more than 6 individuals not residing at the facility), the center complies with all applicable state and local laws and regulations.

The expense is not paid or payable to a "child" (as defined in *Code* Section 152(f)(1)) of yours who is under age 19 the entire year in which the expense is incurred or an individual for whom you or your *Spouse* is entitled to a personal tax exemption as a Dependent.

6. You must supply the taxpayer identification number for each dependent care service provider to the IRS with your annual tax return by completing IRS Form 2441.

You are encouraged to consult your personal tax advisor or IRS Publication 17 "Your Federal Income Tax" for further guidance as to what is or is not an Eligible Employment Related Expense if you have any doubts. In order to exclude from income the amounts you receive as reimbursement for dependent care expenses, you are generally required to provide the name, address and taxpayer identification number of the dependent care service provider on your federal income tax return.

CLAIMS REIMBURSEMENT

Under this Dependent Care FSA, you can complete and submit a written claim for reimbursement.

Traditional Paper Claims: When you incur an Eligible Employment Related Expense, you file a claim with the Plan's Third Party Administrator by completing and submitting a Request for Reimbursement Form. You may obtain a Request for Reimbursement Form from the *Plan Administrator* or the Third Party Administrator. You must include with your Request for Reimbursement Form a written statement from an independent third party (e.g., a bill from the day care provider.) associated with each expense that indicates the following:

a) The nature of the expense;
b) The date the expense was incurred; and
c) The amount of the expense.

The Third Party Administrator will process the claim once it receives the Request for Reimbursement Form from you. You must submit all claims for reimbursement for Eligible Employment Related Expenses during the *Plan Year* in which they were incurred or during the Run Out Period.

The Run Out Period is the period during which expenses incurred during a *Plan Year* must be submitted to be eligible for reimbursement. The Run Out Period for active *employees* is 90 days after the end of the *Plan Year*. The Run Out Period for terminated *employees* is 90 days from the termination date.

DENIED CLAIM

If your claim for benefits is denied, you will have the right to a full and fair review process. You should refer to Appendix I for a detailed summary of the Claims Procedures under this Plan

UNCLAIMED DEPENDENT CARE REIMBURSEMENTS

Any Dependent Care Reimbursements that are unclaimed (e.g., uncashed benefit checks) by the close of the *Plan Year* following the *Plan Year* in which the Eligible Employment Related Expense was incurred shall be forfeited.

You will not be entitled to receive any direct or indirect payment of any amount that represents the difference between the actual Eligible Employment Related Expenses you have incurred and the annual Dependent Care Reimbursement you have elected and paid for. Any amount credited to a Dependent Care Account shall be forfeited by the *Participant* and restored to the *Employer* if it has not been applied to provide the elected reimbursement for any *Plan Year* by the end of the Run Out Period following the end of the *Plan Year* for which the election was effective. Amounts so forfeited shall be used to offset reasonable administrative expenses and future costs or as otherwise permitted under applicable law.

APPENDIX I

CLAIMS REVIEW PROCEDURE CHART

The *Effective Date* of this Appendix I is January 1, 2006. It should replace and supersede any other Appendix I with an earlier date. The Plan has established the following claims review procedure in the event you are denied a benefit under this Plan.

Step 1: *Notice is received from Third Party Administrator.* If your claim is denied, you will receive written notice from the Third Party Administrator that your claim is denied as soon as reasonably possible but no later than 30 days after receipt of the claim. For reasons beyond the control of the Third Party Administrator, the Third Party Administrator may take up to an additional 15 days to review your claim. You will be provided written notice of the need for additional time prior to the end of the 30-day period. If the reason for the additional time is that you need to provide additional information, you will have 45 days from the notice of the extension to obtain that information. The time period during which the Third Party Administrator must make a decision will be suspended until the earlier of the date that you provide the information or the end of the 45-day period.

Step 2: *Review your notice carefully*. Once you have received your notice from the Third Party Administrator, review it carefully. The notice will contain:

a. the reason(s) for the denial and the Plan provisions on which the denial is based;
b. a description of any additional information necessary for you to perfect your claim, why the information is necessary, and your time limit for submitting the information;
c. a description of the Plan's appeal procedures and the time limits applicable to such procedures; and
d. a right to request all documentation relevant to your claim.

Step 3: *If you disagree with the decision, file an Appeal.* If you do not agree with the decision of the Third Party Administrator and you wish to appeal, you must file your appeal no later than 180 days after receipt of the notice described in Step 1. You should submit all information identified in the notice of denial as necessary to perfect your claim and any additional information that you believe would support your claim.

Step 4: *Notice of Denial is received from Third Party Administrator.* If the claim is again denied, you will be notified in writing as soon as possible but no later than 30 days after receipt of the appeal by the Third Party Administrator.

Step 5: *Review your notice carefully.* You should take the same action that you took in Step 2 described above. The notice will contain the same type of information that is provided in the first notice of denial provided by the Third Party Administrator.

APPENDIX I (continued)

Step 6: *If you still disagree with the Third Party Administrator's decision, file a 2nd Level Appeal with the Plan Administrator.* If you still do not agree with the Third Party Administrator's decision and you wish to appeal, you must file a written appeal with the *Plan Administrator* within the time period set forth in the first level appeal denial notice from the Third Party Administrator. You should gather any additional information that is identified in the notice as necessary to perfect your claim and any other information that you believe would support your claim.

If the *Plan Administrator* denies your 2nd Level Appeal, you will receive notice within 30 days after the *Plan Administrator* receives your claim. The notice will contain the same type of information that was referenced in Step 1 above.

APPENDIX II

QUALIFYING EVENT CHART

This chart reflects the mid-year election changes permitted in health insurance for the entire group and the changes permitted in the Dependent Care FSA for Commonwealth Choice participants.

This chart describes the election changes that a cafeteria plan can permit employees to make during a period of coverage under the final cafeteria plan regulations issued in March 2000 and January 2001. Although some of the regulatory provisions are ambiguous, this chart reflects our views of permitted election changes, which are adopted for the Plan Year 2006. The only required mid-year election changes are those related to loss of eligibility (death, divorce, loss of dependency and age.)

Event	Commonwealth Choice Health FSA Covering Expenses of Employee, Spouse, Dependents	Commonwealth Choice Dependent Care FSA
Change in Legal Marital Status		
Marriage	Start or increase election or Decrease election if family members become covered under spouse's health plan (2)	Start or increase election if marriage increases dependent care expenses (3) or stop or decrease election if family elects dependent care assistance under spouse's plan or marriage decreases dependent care expenses (3)
Divorce, legal separation, annulment	Start or increase election if event causes loss of coverage under spouse's health plan (2) or Stop election and redirect the state contribution to health insurance if the event causes loss of other coverage for the employee or Decrease election	Start or increase election if event increases dependent care expenses (3) or causes loss of coverage under spouse's plan or Stop or decrease election if event decreases dependent care expenses (3)

Event	Commonwealth Choice Health FSA Covering Expenses of Employee, Spouse, Dependents	Commonwealth Choice Dependent Care FSA
Spouse's death	Start or increase election if death causes loss of coverage under spouse's health plan (2) or Stop election and redirect the state contribution to health insurance if the event causes loss of other coverage for the employee or Decrease election	Start or increase election if death causes loss of coverage under spouse's plan or increases dependent care expenses (3) or Stop or decrease election if death decreases dependent care expenses (3)
Change in Number of Dependents		
Number of employee's eligible dependents increases (by birth, adoption, or placement for adoption)	Start or increase election	Start or increase election if employee has greater dependent care expenses
Number of employee's eligible dependents decreases (e.g., by death or because child becomes ineligible)	Decrease election	Stop or decrease election if employee has reduced dependent care expenses
Change in Employee's Employment Status		
Employee terminates employment	Cease contributions	Cease contributions
Employee is rehired more than 30-days after termination of employment	Make election to same extent permitted as new employee	Make election to same extent permitted as new employee
Employee commences official leave without pay	Cease contributions	Cease contributions

Event	Commonwealth Choice Health FSA Covering Expenses of Employee, Spouse, Dependents	Commonwealth Choice Dependent Care FSA
Break in coverage is less than 30-days.	Reinstate prior election unless intervening status change event * If employee did not elect COBRA during termination period, reinstatement of the prior coverage can be accomplished with one of the following methods (employee's choice): Proration: Employee may elect to continue at the same monthly contribution as prior to the termination and the annual amount is reduced by the contributions missed during that period or Reinstatement: Employee may elect to makeup the shortfall resulting from the contributions missed during the terminated period	Reinstate prior election unless intervening status change event *
Employee commences official leave without pay	Cease contributions	Cease contributions
Employee returns from official leave without pay	Reinstate prior election unless intervening status change event Reinstatement of the prior coverage can be accomplished with one of the following methods (employee's choice): Proration: Employee may elect to continue at the same monthly contribution as prior to the termination and the annual amount is reduced by	Reinstate prior election or Change election if event changes dependent care expenses (3)

Event	Commonwealth Choice Health FSA Covering Expenses of Employee, Spouse, Dependents	Commonwealth Choice Dependent Care FSA
	the contributions missed during that period or Reinstatement: Employee may elect to makeup the shortfall resulting from the contributions missed during the terminated period	
Employee begins unpaid FMLA leave (4) or Military Leave *NOTE: Employee may choose not to participate; otherwise they must choose one payment option or another	Cease contributions or Prepayment: Increase election to prepay coverage during leave or Pay-as-you-go: Employee may make contributions on the same schedule as payments would have been made otherwise	Decrease election if leave causes loss of coverage or decreases dependent care expenses (3) or Cease contributions
Employee returns from unpaid FMLA leave (4) or Military Leave	Employee must be able to reinstate prior coverage and can choose one of the following: Proration: Employee may elect to continue at the same monthly contribution as prior to the FMLA and the annual amount is reduced by the contributions missed during the FMLA or Reinstatement: Employee may elect to makeup the shortfall resulting from the contributions missed during FMLA	Generally same rights as employee returning from non-FMLA leave, though employee must be able to reinstate prior coverage

Event	Commonwealth Choice Health FSA Covering Expenses of Employee, Spouse, Dependents	Commonwealth Choice Dependent Care FSA
Employee commences paid leave (assuming event does not affect eligibility for coverage)	No change	Decrease election if event decreases dependent care expenses (3)
Employee returns from paid leave	No change unless intervening status change event (9)	Increase election if event increases dependent care expenses (3)
Employee changes worksite (out of service area) *This is only applicable if the employee chose "work" county	No change	Decrease election if event decreases dependent care expenses (3) or Increase election if event increases dependent care expenses (3) (unless the care provider is a relative)
Other change in employee's employment status (e.g., switch from salaried to hourly status) that causes employee to cease eligibility under plan	Cease contributions	Cease contributions
Other change in employee's employment status (e.g., switch from hourly to salaried status) that causes employee to become eligible for coverage under plan	Make elections as if a new employee	Make elections as if a new employee
Change in Spouse or Dependent Employment Status (Dependent must continue to meet all eligibility requirements.)		
Spouse or dependent terminates employment	Start or increase election if event adversely affects eligibility for coverage under spouse's or dependent's health plan (2)	Start or increase election if event adversely affects eligibility for coverage under spouse's dependent care assistance plan or

Event	Commonwealth Choice Health FSA Covering Expenses of Employee, Spouse, Dependents	Commonwealth Choice Dependent Care FSA
		Stop or decrease election if event decreases dependent care expenses (3)
Spouse or dependent commences employment	Decrease election if family becomes covered under health plan of spouse or dependent (2)	Start or increase election if event increases dependent care expenses (3) or Stop or decrease election if family becomes covered under spouse's dependent care assistance plan
Spouse or dependent is out of work due to strike or lockout	Start or increase election if event adversely affects eligibility for coverage under spouse's or dependent's health plan (2)	Start or increase election if event adversely affects eligibility for coverage under spouse's dependent care assistance plan or Stop or decrease election if event decreases dependent care expenses (3)
Spouse or dependent returns to work following cessation of strike or lockout	Decrease election if family becomes covered under health plan of spouse or dependent (2)	Start or increase election if event increases dependent care expenses (3) or Stop or decrease election if family becomes covered under spouse's dependent care assistance plan
Spouse or dependent commences unpaid leave (if the event adversely affects eligibility for coverage under the spouse or dependent's plan)	Start or increase election if event adversely affects eligibility for coverage under spouse's or dependent's health plan (2)	Start or increase election if event adversely affects eligibility for coverage under spouse's dependent care assistance plan or Stop or decrease election if event decreases dependent

Event	Commonwealth Choice Health FSA Covering Expenses of Employee, Spouse, Dependents	Commonwealth Choice Dependent Care FSA
		care expenses (3)
Spouse or dependent returns from unpaid leave	Decrease election if family becomes covered under spouse's or dependent's health plan (2)	Start or increase election if event increases dependent care expenses (3) or Stop or decrease election if family becomes covered under spouse's dependent care assistance plan
Other change in spouse's or dependent's employment status that causes spouse or dependent to cease to be eligible for coverage under spouse's or dependent's plan (e.g., switch from salaried to hourly status)	Start or increase election (2)	Start or increase election if event adversely affects eligibility for coverage under spouse's plan (3)
Other change in employment status that causes spouse or dependent to gain eligibility for coverage under spouse's or dependent's plan (e.g., switch from hourly to salaried status)	Decrease election if family members become covered under health plan of spouse or dependent (2)	Decrease election or Increase election if event increases dependent care expenses (3)
Change in Dependent Eligibility		
Dependent ceases to satisfy plan eligibility requirements on account of age, marriage or any similar circumstance (support and maintenance)	Decrease election	Stop or decrease election if event decreases dependent care expenses (3)
Unmarried dependent re-establishes plan eligibility requirement (5) under applicable plan	Start or increase election	Start or increase election if event increases dependent care expenses (3)
Change in Residence		
Employee, spouse, or dependent changes primary	Make election change that corresponds with event	Make a corresponding election change if the child

Event	Commonwealth Choice Health FSA Covering Expenses of Employee, Spouse, Dependents	Commonwealth Choice Dependent Care FSA
(6) residence and becomes ineligible for current benefit election		care provider changes
Other Events		
Loss of other group health insurance coverage or health insurance coverage that entitles employee or family member to be enrolled under HIPAA Special Enrollment Rights	Start or increase election or Stop election and redirect the state contribution if the event causes loss of other coverage for the employee or Start or increase election	None
Judgment, decree, or administrative order relating to health coverage for child	Start or increase election if order requires employee to provide child's health coverage or Decrease election if other parent covers child under order	None
Employee, spouse, or dependent enrolled in employer's health plan becomes entitled to Medicare or Medicaid	Decrease election	None
Employee, spouse, or dependent loses entitlement to Medicare, Medicaid, KCHIP, any governmental group health insurance coverage	Start or increase election	None
Cost or Coverage Changes (8)		
Benefit option has significant increase or decrease in cost		Make a corresponding change (increase or decrease). Increasing the election for a day care provider raising rates mid-year is only

Event	Commonwealth Choice Health FSA Covering Expenses of Employee, Spouse, Dependents	Commonwealth Choice Dependent Care FSA
		permitted if the provider is not a relative of the employee
Change In Coverage Under Another Employer Plan		
Employee's spouse makes elections during an open enrollment period that differs from the open enrollment period of the employer (7) Employee makes elections during an open enrollment period of another employer that differs from the open enrollment period of the employer (7) Retiree makes elections during an open enrollment period of a state sponsored retirement system that differs from the open enrollment period of the employer	After Open Enrollment and before 12/31 Employee may make corresponding change (and redirect state contribution) After 12/31 - None After Open Enrollment and before 12/31 Employee may make corresponding change (and redirect state contribution) After 12/31 – None None	Employee can make election change that "corresponds" with election change under the other employer plan
Individual changes election for any other event that is permitted under regulation (and terms of the employer plan)	None	Employee can make election change that "corresponds" with election change

Permitted Election Changes

End Notes:

(1) The final regulation preamble indicates that dependents who can be added are those who were directly affected by the status change event plus other dependents (the so-called "tag-along" rule). However, the examples in the regulation only explicitly deal with situations where an employee elects family coverage and adds family members at no additional cost. It is not clear, but IRS staff members have informally stated that the "tag-along" rule applies even if the employee must increase an election to add additional dependents. Also, the preamble and examples in the regulation indicate that the "tag-along" rule applies to HIPAA events and situations where a spouse terminates employment; it is not clear what other events might be covered by the "tag-along" rule.

(2) It appears this rule does not require that a spouse's coverage include a Health FSA.

(3) By an increase or decrease in dependent care expenses, we mean that the event increases or decreases the amount of expenses that an employee can have reimbursed on a tax-free basis under Code section 129 from a dependent care assistance plan. For example, if the employee gets married and his or her spouse does not work outside the home, the spouse would be available to care for a child, and thus the employee may not be able to claim that dependent care expenses are being used to enable the employee to be gainfully employed — a condition that must be satisfied for the expense to be reimbursed on a tax-free basis under Code section 129. Conversely, the marriage can increase the amount of expenses reimbursable under the dependent care assistance plan if, for example, a new spouse or stepchild is a "qualifying individual" for whom dependent care assistance can be received. A spouse's death or divorce might lead to fewer dependent care expenses eligible for reimbursement under section 129 if, for example, the spouse was a "qualifying individual." Conversely, if the spouse was not employed outside the home, the death or divorce might require the employee to pay for a caregiver in order to remain gainfully employed, and therefore the expenses may be reimbursed on a tax-free basis under section 129.

(4) Most employees are entitled to certain rights under the Family and Medical Leave Act (FMLA), whether or not the benefits are provided through a cafeteria plan. Employees generally must receive up to 12 weeks of unpaid FMLA leave, although the employee or employer generally can choose to substitute available paid leave for unpaid leave. During FMLA leave, the employer must maintain group health coverage (including FSA coverage) on the same conditions as coverage would be provided if the employee had not taken the leave. An employee's entitlement to other benefits during FMLA leave is determined by the employer's established policy for providing such benefits when the employee is on other forms of paid or unpaid leave (as appropriate). If benefits are continued during unpaid leave, proposed IRS regulations allow benefits purchased through a cafeteria plan to be paid in several ways, including increased salary reductions before the leave to prepay benefits or using salary reductions after the leave to "catch-up" on payments. Benefits continued on paid FMLA leave are paid for in the same manner as during any paid leave. Employees can choose to drop benefits while on leave, but FMLA requires they have the right to be reinstated upon return from leave.

(5) For purposes of eligibility in this plan, a divorced dependent is not an "unmarried" dependent.

(6) Primary residence is the official residence claimed for tax purposes.

(7) Military Insurance Coverage, which does not include Veteran's Administration benefits, is considered "Another Employer Plan".

(8) "Cost or Coverage Changes under the Employer's Plan" are not included in this chart. In the event there is a mid-year change in the health plan, specific direction will be provided to the group or groups affected.

(9) An employee must request the mid-year election change within 30 days of the return to work date.

(10) Supporting documentation required.

(11) HIPAA Special Enrollment Right

APPENDIX II (continued)

Effective Dates:
Effective dates for the various mid-year election changes are as follows:

A. Events increasing coverage
   1. Birth, adoption, placement for adoption = date of the event;
   2. Marriage, loss of other coverage, court or administrative orders for dependent(s) or foster child(ren), expiration of COBRA = 1st day 1st month from the employee signature date.
   3. Different Open Enrollment = 1st day 1st of month (match effective date of other employer's plan)

B. Events decreasing coverage
   1. Death = date of the event.
      a. death of the employee with dependents = end of month in which death occurred
      b. death of employee no dependents = date of death
      c. death of dependent = date of death
   2. Divorce, loss of dependent status = End of the month of loss of eligibility.
   3. Gaining other health insurance coverage (Medicare/Medicaid/Tricare/etc.) = End of the month from the employee's signature date.
   4. Different Open Enrollment = Last day of the month (match other employer's plan).

All Qualifying Events must be signed by the employee 30-days from the date of the Qualifying Event, except for birth, adoption, or placement for adoption when adding the newly acquired dependent only, which is 60-days. However, if the Qualifying Event is loss of other coverage, the employee is permitted to sign the Qualifying Event prior to the Qualifying Event date.

APPENDIX III

DEFINITIONS

Affiliated Employer **-** means any entity who is considered with the Employer to be a single employer in accordance with Code Section 414(b), (c), or (m).

After-tax Contribution(s) **-** means amounts withheld from an Employee's Compensation after all applicable state and federal taxes have been deducted. Such amounts are withheld for purposes of purchasing one or more of the Benefit Package Options available under the Plan.

Benefit Package Option(s) **-** means those Qualified Benefits available to a Participant under this Plan as amended and/or restated from time to time.

Code **-** means the Internal Revenue Code of 1986, as amended.

Compensation **-** means the cash wages or salary paid to an Employee by the Employer.

Effective Date **-** This is the date the Plan was established.

Employee **-** means an individual who the Employer classifies as a common-law employee and who is on the Employer's W-2 payroll, but does not include any of the following: (a) any leased employee (including, but not limited to, those individuals defined in Code § 414(n)); (b) an individual classified by the Employer as a contract worker or independent contractor; (c) an individual classified by the Employer as a temporary employee or casual employee, whether or not any such persons are on the Employer's W-2 payroll; and (d) any individual who performs services for the Employer but who is paid by a temporary or other employment agency such as "Kelly," "Manpower," etc., or any employee covered under a collective bargaining agreement, except as otherwise provided for in the collective bargaining agreement.

Employer **-** means the Commonwealth of Kentucky and any Affiliated Employer who adopts the Plan pursuant to authorization provided by the Employer. Affiliated Employers who adopt the Plan shall be bound by the Plan as adopted and subsequently amended unless they clearly withdraw from participation herein.

Highly Compensated Individual **-** means an individual defined under Code Section 125(e), as amended, as a "highly compensated individual" or a "highly compensated employee."

Key Employee **-** means an individual who is a "key employee" as defined in Code Section 125(b)(2), as amended.

Participant **-** means an Employee who becomes a Participant pursuant to this *Summary Plan Description.*

Plan **-** means this Cafeteria Plan, as set forth herein.

APPENDIX III (continued)

Plan Administrator **-** means the person(s) or Committee identified in the *Summary Plan Description* that is appointed by the Employer with authority, discretion, and responsibility to manage and direct the operation and administration of the Plan. If no such person is named, the Plan Administrator shall be the Employer.

Plan Year **-** shall be the period of coverage set forth in this Summary Plan Description.

Pre-tax Contribution(s) **-** means amounts withheld from an Employee's Compensation before any applicable state and federal taxes have been deducted. The amounts are withheld for purposes of purchasing one or more of the Benefit Package Options available under the Plan. This amount shall not exceed the premiums or contributions attributable to the most costly Benefit Package Option afforded hereunder, and for purposes of Code Section 125, shall be treated as an Employer contribution (this amount may, however, be treated as an Employee contribution for purposes of state insurance laws).

Qualifying Event **-** means any of the events described in this Summary Plan Description, as well as any other events included under subsequent changes to Code Section 125 or regulations issued under Code Section 125, that the Plan Administrator (in its sole discretion) decides to recognize on a uniform and consistent basis as a reason to change the election mid-year.

Spouse **-** means an individual who is legally married to a Participant (and who is treated as a spouse under the Code).

Summary Plan Description" or "SPD **-** means the Flexible Benefits Plan SPD and all appendices incorporated into and made a part of the SPD that is adopted by the Employer and as amended from time to time. The SPD and appendices are incorporated hereto by reference.

Student **-** means an individual who, during each of five (5) or more calendar months during the Plan Year, is a full time student at any college or university, the primary function of which is the conduct of formal instruction, and which routinely maintains a regular faculty and curriculum and normally has an enrolled student body in attendance at the location where its educational activities are regularly presented.